Supreme Court, U.S.
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No. 97-1879

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

MAC PANEL COMPANY,

Petitioner,

v.

VIRGINIA PANEL CORPORATION,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF

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Contrary to Virginia Panel's attempts to color the issues as factual in nature, the instant petition does not call for thCourt to resolve any issues of fact. The factual issues have already been resolved, in MAC Panel's favor, by the trial court judge and jury. Rather, this petition calls for the Court to decide only whether the Federal Circuit correctly applied the law when reviewing the legal and factual issues decided by the trial court. As explained in the petition, it did not.

I. Reversal of the Federal Circuit's Misuse Holding Does Not Require Fact Finding by the Court

As set forth in the petition, MAC Panel presented substantial evidence, including Virginia Panel's explicit admissions, that Virginia Panel's warranty-voiding scheme was a sham—its only avowed purpose being to drive MAC Panel out of the market. MAC Panel did not and does not deny that Virginia Panel presented evidence it contended was countervailing in nature, but the factual battle has already been waged—and lost—by Virginia Panel in district court. Thus, the entire thrust of Virginia Panel's fact-laden Opposition misses the point. The only misuse question for the Court to decide is whether warranty-voiding threats can constitute misuse.

As explained in the petition, the Court has repeatedly held, in cases such as *Morton Salt*, *Carbice*, and *Leitch*, that attempts by patentees to coerce customers to purchase unpatented products to use with its patented products constitute misuse. Clearly, warranty-voiding threats can be used to accomplish that goal. Virginia Panel's cursory attempt to distinguish these cases on the ground that they relate to contributory rather than direct infringement is illusory, as their essential holdings remain the same. Moreover, Virginia Panel's argument that the 1988 revisions to 35 U.S.C. § 271(d) "scaled back" the misuse doctrine in cases such as this is self-

contradictory, for Virginia Panel itself acknowledges that the 1988 revisions do not affect circumstances where the patentee has market power (Opp. at 12). Here, it is unrefuted that Virginia Panel has market power and therefore can be found guilty of misuse.

Interestingly, Virginia Panel observes on page 13 of its Opposition that "actual tying arrangements" still constitute misuse, but does not answer the central query of this case—why, where a warranty-voiding scheme has the purpose and effect of a tie, should its promoter escape misuse culpability? Of course, no valid reason exists. Under the Court's precedent, where a patentee uses the power bestowed by his patent to coerce the purchase of unpatented products, the patentee has misused his patent. The trial court judge and jury found Virginia Panel's warranty-voiding scheme to involve such coercion, and the Federal Circuit should not have disturbed that ruling by blessing all warranty-voiding schemes as *per se* lawful.

Finally, the Federal Circuit's alternative justification for its misuse holding—that Virginia Panel "introduced ample unrefuted evidence" that its warranty policy was based on legitimate business purposes (21a)—is legally erroneous. Without delving into a factual inquiry, this Court can observe that Virginia Panel's "evidence" to this effect was refuted by MAC Panel. *See, e.g.*, C.A. App. A10033, A10009, A6480-81, A10061, A6120, A7259-62, A7319-21. In fact, Virginia Panel's self-proclaimed reason for its warranty policy was to dominate the market and "keep MAC Panel out." C.A. App. A10009, 10033. Such objectives are far from legitimate. The Court need not decide whose evidence is more compelling. The judge and jury have already done so. The Court need only observe that ample evidence existed so that the jury could

reasonably have decided that Virginia Panel's warranty scheme was predicated on unlawful objectives. The Federal Circuit simply ignored its role as a Court of review, and rendered a legally erroneous ruling by promoting evidence the judge and jury had already rejected.

II. Reversal of the Federal Circuit's Antitrust Holding Does Not Require Fact Finding by the Court

In its antitrust discussion, Virginia Panel again attempts to factually reargue its case. The factual issues were heavily disputed at trial, but Virginia Panel lost on the facts. Nonetheless, the Federal Circuit reversed the jury and judge's verdicts, creating a "no misuse, no antitrust" rule. As explained in the petition, such a rule has no legal or logical precedent. Virginia Panel does not address *even a single* antitrust case cited by MAC Panel in its Opposition. And, most remarkably, Virginia Panel makes no attempt to explain, justify, or defend the Federal Circuit's broadly stated, and clearly erroneous "no misuse, no antitrust" rule.

And, as far as the supposed lack of evidence as to injury, causation, and loss of market share, these arguments miss the mark entirely. Virginia Panel argues that MAC Panel failed to prove injury in sales of "modules, pins, and patchcords" (Opp. At 18). Virginia Panel is correct. Rather than prove injury *outside* of the relevant product market (*i.e.* in pins, modules, and the like), MAC Panel proved injury *within* the undisputed relevant product market (*i.e.* sales of ITAs). Such ITAs are open to a competitive bidding process, and MAC Panel has an undisputed right, by implied license, to sell ITAs. Likewise, this Court can simply observe that MAC Panel did, in fact, present substantial and extensive proof of its

antitrust injury, through two economic experts and through numerous exhibits analyzing the damage done to MAC Panel. *See, e.g.*, C.A. App. A6711, A10069, A6480-81, A6321-22, A6711-15, A7186-90. The Federal Circuit's reversal of the jury's antitrust findings under an apparent *de novo* standard was legally erroneous. This Court need not engage in a factual inquiry to reach that conclusion.

III. Conclusion

Two extremely important legal issues are before the Court on this petition: whether warranty-voiding threats *can* constitute misuse, and whether an antitrust violation *can* be found in the absence of patent misuse. The Court should not be misled by Virginia Panel's attempts to color this petition as heavily factual. This Court need not engage in factual inquiries to reverse the Federal Circuit's legally erroneous misuse and antitrust holdings.

Respectfully submitted,

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